

**STATEMENT OF
MS. STELLA FIOTES
EXECUTIVE DIRECTOR,
DEPARTMENT OF VETERANS AFFAIRS (VA),
OFFICE OF CONSTRUCTION AND FACILITIES MANAGEMENT
BEFORE THE
HOUSE OVERSIGHT COMMITTEE
SUBCOMMITTEE ON NATIONAL SECURITY**

June 25, 2015

Good morning, Mr. Chairman and Members of the Committee. Thank you for the opportunity to discuss the Department of Veterans Affairs (VA) leasing program. I am accompanied today by Mr. Norbert Doyle, Chief Procurement and Logistics Officer Veterans Health Administration.

The Department's main priority is to provide timely, high-quality care to Veterans in facilities that are procured legally, constructed soundly, and comply with Federal requirements for accessibility, safety, and security. Leasing some rather than constructing and owning all medical space allows VA flexibility to address demographic shifts and the changing service demands of our Nation's Veterans.

While VA is working to deliver world-class facilities for Veterans' care, we are also aggressively working to shorten the delivery timelines for leased space by identifying ways that we can improve and streamline VA's internal and external processes, and implementing agency-wide programmatic changes. We are also working with our partners in the Office of Management and Budget (OMB), General Services Administration (GSA), U.S. Army Corps of Engineers, and experts from the private sector to achieve maximum efficiencies and implement best practices on lease projects. Through this on-going effort, we will improve our timeliness, while continuing

to ensure that Veterans receive care in the best facilities available. Our Veterans deserve nothing less.

BACKGROUND

As you know, VA has recently partnered with GSA to address issues of authority that were encountered over the last few years. Going forward, VA will be utilizing delegations of GSA leasing authority to execute any leases that VA enters into. VA has been working collaboratively with GSA to establish a process to review proposed leases and obtain delegations on a case by case basis. The period of time during the implementation of the current practice resulted in some uncertainty in VA's leasing program and ultimately led to a temporary "hold" on a number of projects that were under procurement at the time. Today, VA and GSA have an established relationship, and projects are moving forward through the GSA delegation and VA procurement processes.

Another aspect of VA's new partnership with GSA is the refining of VA's budgetary treatment of leases to more closely align with GSA's practices while maintaining compliance with OMB's Circular A-11, which dictates how Federal assets are treated or "scored" as capital or operating. VA has since implemented a new cost estimating methodology that aligns with GSA's practices. A lease must score as operating in order for VA to use any delegated GSA authority and make a contract award, which has proven to be difficult and which has resulted in additional project delays as price proposals are restructured.

RECENT REPORTS ON VA LEASING

Mr. Chairman, as I am sure you are aware, several major reports have been published regarding VA leasing in the last few years. These include a VA's Office of the Inspector General (OIG) report on VA's Health Care Center (HCC) projects; a Government Accountability Office (GAO) report on VA's leasing process for its Major leases, and the OIG Advisory Memorandum and Report on the Butler HCC project.

VA has undertaken tremendous efforts to respond to the recommendations made by these reports, conducted its own studies on how VA could improve, and implemented Department-wide changes. I am pleased to inform you of the following efforts that VA has completed:

- Elimination of redundant approval requirement – VA has eliminated the requirement that the Secretary approve leases between \$300,000 and \$1,000,000 in annual unserviced rent, when they were already receiving approval through VA's Strategic Capital Investment Process (SCIP). Instead of the redundant approval, the Secretary will be briefed regularly on all projects approved through SCIP.
- Policies and Procedures – Over the past several years, VA has issued new policies and procedures in a myriad of areas including leasing procurements, establishing requirements, procurement steps, pre-award vetting, compliance, and quality assurance. Many of the new policies and procedures issued are as a result of recommendations made by the OIG, GAO, and Congressional members.

- Contracting Reorganization – In fiscal year 2014, VA’s Office of Acquisition, Logistics, and Construction (OALC) restructured its contracting groups, allowing for a clearer division of labor and decision-making authority between Contracting Officers (COs) and Project Management. In addition, leasing officials have been integrated into OALC’s contracting arm to provide contracting assistance, review, and oversight of lease procurements.
- Standardization of GSA Delegation Requests – VA has implemented an internal review and approval process for delegation requests to be submitted to GSA to ensure consistency and completeness of submissions Department-wide.

I am also pleased to inform you of the following efforts that are underway:

- New Broker Services Contract – VA is in the solicitation development phase for its next indefinite delivery/indefinite quantity (IDIQ) contract for real estate broker services. The new IDIQ contract will include implementation of new processes, procedures, and requirements to provide robust support for VA lease procurements on a national level.
- Lean Six Sigma (LSS) Analysis – VA is undertaking an LSS analysis of its leasing process, from requirements development through seeing the first patient. Process improvement opportunities identified in the LSS analysis are already being implemented.
- Standardized Design – VA has developed standardized design prototypes for leased community-based outpatient clinics (CBOC), and will require the use of

these prototypes for all new build-to-suit and prospectus-level leases procured by my office. Utilizing prototypes will aid in requirements definition, streamline project timelines, and help to standardize facilities and services Department-wide.

- Formal Guidance –VA is in the process of updating its Lease-Based Outpatient Clinic Design Guide and Solicitation for Offers (SFO), as well as its official Leasing Handbook.

SUCSESSES

In addition to our programmatic efforts, I would like to share with you some of our project-level successes, which I hope demonstrate the depth and breadth of VA's leasing program:

- In fiscal years 2013 and 2014, OALC awarded or accepted leases totaling 2.94 million square feet, totaling \$3.9 Billion in total contract value.
- This year, VA accepted as complete the Montgomery, Alabama HCC, which is the first of the 2010 HCCs to be completed. We anticipate that several other HCCs will be completed in the coming months.

ST. AUGUSTINE

The long-term St. Augustine CBOC lease was affected by the temporary "hold" placed on VA's leasing program in FY 2013-2014, and during VA-GSA authority and delegation process discussions,. Once the delegation process was in place and applied, VA experienced difficulty in ensuring that the proposed lease agreement could receive operating lease treatment under the delegated GSA Title 40 authority. As

mentioned earlier, the delegated authority can only be used to award operating leases. . VA is reviewing the best and final proposals from offerors participating in the procurement, and is engaging in value engineering efforts to restructure the cost of the project to determine if operating treatment is possible.

Throughout these efforts, VA remains committed to providing the St. Augustine CBOC to Florida Veterans while remaining in compliance with budgetary and procurement laws and regulations. Should the lease achieve operating status, VA will move forward swiftly in the procurement process. However, if these efforts are not successful, VA will need to cancel the lease procurement and seek other means of satisfying the space needed in St. Augustine and providing services to area Veterans.

VA executed a license agreement that will allow the existing facility to stay in place until September 30, 2015. After that date, Veterans will receive services at new modular buildings that will act as a temporary clinic until the long-term lease is awarded and constructed.

We appreciate St. Johns County's commitment to Veterans and their desire to lease VA space in their new development site. However, all lease procurements conducted by VA are required to comply with the Competition in Contracting Act, the GSA Acquisition Regulations, and applicable parts of the Federal Acquisition Regulation (FAR). Such procurements cannot be sole-sourced absent a valid exception to other than full and open competition under the FAR. VA was unable to accept the County's initial proposal to construct a replacement facility at the St. Johns County site, because it was outside of the geographic area that VA was considering for the project. This area was defined by VHA and represents the best potential CBOC locations to reach the

most underserved Veterans. Additionally, the County's site is within a 100-year flood zone. VA can only consider a site in the 100-year flood zone if no other viable alternatives are available.

We understand and share the frustration of everyone involved with this CBOC project. Please know, we **will** deliver a long-term leased clinic for the Veterans in and around St. Johns County and St. Augustine, and we regret the delays incurred to date.

CONCLUSION

Mr. Chairman, VA is focused on providing Veterans with high-quality, accessible care in the best facilities available. We do not take this duty lightly when ensuring VA health care facilities are procured legally, constructed soundly, and comply with Federal requirements for accessibility, safety, and security. VA has been faced with recent challenges with the leasing program, but feel that we now have a defined path ahead as we work with our internal and external partners to meet Veterans' needs for timely, flexible options for their care, while being good stewards of taxpayer dollars.

Mr. Chairman and Members of the Committee, this concludes my statement. Thank you for the opportunity to testify before the Committee today. My colleagues and I would be happy to respond to any questions you may have.